AXA WF Global Income Generation E EUR

Fund Managers's Comment

We have surely passed the peak of pessimism in the eurozone due to slightly more resilient activity data than expected and a moderately faster decline in headline inflation. However, this does not mean that core inflation will decelerate as quickly. In the US, there is increasing evidence pointing to a recession while the Federal Reserve's terminal rate is not far off in our view.

In the Eurozone, GDP growth surprised to the upside at +0.1% quarter-on-quarter (qoq), aided by a contribution from foreign trade but also but also helped by another "extraordinary" contribution from Ireland, without which growth would be rather stable or even very slightly in negative territory. Nevertheless, activity is slowly recovering as evidenced by the latest January PMIs which reached 50.7 in the services sector while the Composite Output index moved back into expansion territory at 50.2. On the inflation front, we are starting to see signs of deceleration at 8.5% year-on-year (yoy) in January compared to 9.2% in December 2022 however this move is driven exclusively by falling energy prices. Meanwhile, core inflation remained stable at 5.2%. Slightly more resilient economic activity and robust core inflation prompted the ECB to raise interest rates by +50bps at its last meeting early February whilst signalling its willingness to proceed with another hike of the same magnitude in March before reassessing the need to raise rates further.

In the US, 4th quarter GDP growth also came in slightly above expectations at +2.9% annualised. While inventories once again made a significant positive contribution, household consumption (+2.1%) also boosted activity. It should be noted that the savings rate of American households is extremely low, while credit use has rarely been so high. Residential investment continued to fall (-7.5%) but business investment was also impacted (-1.7%). The latest surveys seem to confirm the challenges facing the US economy as the December ISM indices, both in the manufacturing and services sectors, fell sharply. Retail sales also stumbled in December (-1.1% mom). Headline and core inflation came in at 6.5% and 5.7% yoy in December, down -0.6% and -0.3% respectively. While this bodes well for the future, it should not be overlooked that these remain exceptionally high and that convergence back to the Fed's target may take some time, especially for the latter. Following its last meeting, the Fed acknowledged that downward pressure was beginning to emerge but that this was still insufficient to initiate a pause in its monetary policy tightening. As a result, the Fed raised rates by 25bps and signalled that it could hike further at future meetings.

In the UK, the latest surveys on economic activity remain in contraction territory. Indeed, in January, the flash PMI in services stood at 48 (-1.9pp) while its equivalent in manufacturing increased but remained in sharp contraction at 46.7 (+1.3p). While strikes may have impacted these indices, the underlying dynamics remain poor. Headline inflation eased slightly to 10.5% yoy in December but core inflation remained stable at 6.3%. The Bank of England seems to have focused on the latter point since it decided to raise its key rates by 50 bps but it has already indicated that the weakness of the economy could prompt it to quickly stop raising rates at future meetings.

In China, the rapid reopening of the economy has already materialising in high frequency data such as subway rides, highway tolls etc. but also in the more traditional data such as the Composite PMI Output (production in the manufacturing and services sector) shows a clear rebound (+10.3) reaching 52.9 in January.

In Japan, PMIs remain in expansionary territory while inflation rose to 4% yoy. Nevertheless, the Bank of Japan (BoJ) reiterated its desire to see rising wages before further adjusting monetary policy. This makes the upcoming wage negotiations (Shunto) of great interest as these could influence the BoJ's position over the coming months, especially as a change of Governor is expected in April.

Equity markets enjoyed a strong start to the year cheered by optimism linked to China's reopening and hopes of a less hawkish Federal Reserve going forward. US equities (S&P 500) rose +6.2% while the tech heavy NASDAQ gained +10.5%, posting its best January since 2001.

Benchmark

The fund doesn't have a benchmark.

The Fund is actively managed without reference to any benchmark.

Fund Profile

ESG Rating

% of AUM covered by ESG absolute rating: Portfolio = 86.4% (not meaningful for coverage below 50%)

For more information about the methodology, please read the section 'ESG Metrics Definition' below

Fund Manager

Andrew ETHERINGTON

Cesar VANNEAUX - Co-Manager

Source(s): AXA Investment Managers as at 31/01/2023

Fund Managers's Comment (Continued)

The EuroStoxx 50 jumped +9.8% higher in the best start of the year ever for eurozone equities as investors reacted positively to easing inflation, declining gas prices and China reopening. Local bourses performed in line with the Spanish IBEX up +9.8%, the French CAC +9.4% higher and the German Dax rose +8.7% higher with even more pronounced gain +12.2% for the Italian MIB. British equities, as measured by the FTSE 100, rose a lesser +4.3%. In Asia, Japanese equities, as indicated by the Topix, also rose +4.4%. Meanwhile, Chinese equities continued to react positively to the opening of the domestic economy with the Hang Seng index in Hong Kong up +10.4% with the local Shanghai index rising a lesser +5.5%. Emerging markets also rose +7.9% in US dollars and +6% in Euros.

Government bond markets also began the new year on a brighter note as falling inflation, higher yields and rising recession risks encouraged investors back into bonds. Sovereign bond yields, which move inversely to prices, fell in the US, UK and Europe as markets expected central banks to consider more dovish monetary policy in the wake of falling inflation. US sovereign 10-year yields decreased -37 bps to 3.51%. In the euro zone, German Bund 10-year yields dropped -29 bps to 2.29% while in the periphery 10 year Italian BTP decreased -55 bps to 4.1% and Spanish BONOS yields fell -37 bps to 3.28%. In a parallel move, the UK, 10-year Gilt yields moved -34 bps lower to 3.33%. Japan bucked the trend, as the market challenged the BoJ's ultra-easy monetary policy sending yields higher and prompting emergency purchases which brought back the 10 year yield just below 0.5% (+7 bps). Credit markets benefited from both lower yields and regained risk appetite that allowed spreads to narrow moderately for Investment Grade and even more so for High Yield.

Within currency markets, the dollar depreciated slightly against most major currencies as indicated by the -1.4% decline of the dollar index. The British pound appreciated +1.9% whilst the Euro gained +1.4% against the dollar. The Japanese Yen was close to stable (+0.6%) versus the dollar.

Commodities were mixed although the Bloomberg Commodity Index excluding Agriculture & Livestock declined -1.9% in US dollars. Oil prices remained in a tug of war between optimism over China reopening and fears that a US recession would weigh on oil demand with Brent flat at just above $85 a barrel while WTI declined $1 to just below $79 a barrel. However, energy prices were once again impacted by the sharp decline in gas prices which dropped -22% in Europe and -34.6% in the US on the back of warmer weather. On the other hand, industrial metal prices continued to move higher on the hopes of stronger Chinese demand with the reopening of the economy and risks of curtailed supplies from Latin America as indicated by the copper price up+10.3%. Gold also rose +5.8% above $1,900 on China reopening, continued dollar weakness and the growing consensus that central banks rate hikes would soon peak.

In January, the asset allocation remained conservative in equity risk relative to the long-term risk structure for the fund. For fixed income, duration was again reduced during the month following on from reduction in December.
In the equity allocation, the conservative positioning was maintained despite a very strong start to the year that saw risk assets, and especially for those outside of the US, rally from the sell-off into year end. Thus, despite the conservative positioning being a negative contributor to overall relative performance, the extra positioning in emerging market equities helped to mitigate this due to their strong performance. The fund took advantage of the strong rally and drop in volatility pricing to increase the risk mitigation potential of the strategy by investing in Put options on Eurostoxx 50 struck for March 2023 expiry.
The fund also increased its exposure to commodity markets during the month as the reopening of the Chinese economy should eventually translate into higher demand for materials, industrial metals, and energy.
In the fixed income allocation, the exposure to High Yield was reduced and the proceeds reallocated to Emerging Bonds. The High Yield was last increased at the start of Q4 when credit spreads were under significant pressure along with other risk markets at the time.

Source(s): AXA Investment Managers as at 31/01/2023

Fund Managers's Comment (Continued)

Credit spreads and equities have performed well since and the decision was taken to take some profit and align more closely with the view on risk markets as a whole where valuations are now more challenging.

In terms of currency risk, the long JPYEUR position was increased ahead of the Bank of Japan meeting which, in the end, produced no new initiatives in terms of the relaxing of yield curve controls or monetary policy in general. The expectations are that, prior to the change of Governor in April, some groundwork to changes will be pre-announced which should benefit the currency and see yields move higher.

Additional Information

Administration: E EUR

Legal form	SICAV
UCITS Compliant	Yes
AIF Compliant	No
Legal country	Luxembourg
1st NAV date	07/08/2015
Fund currency	EUR
Shareclass currency	EUR
Valuation	Daily
Share type	Accumulation
ISIN code	LU0960401213
Ongoing charges	2.00%
Financial management fees	1.25%
Maximum management fees	1.25%
Performance fees : none	
Maximum distribution fees	0.5%
Management company	AXA Funds Management S.A.
(Sub) Financial delegation	AXA INVESTMENT MANAGERS PARIS S.A.
Delegation of account administration	State Street Bank International GmbH (Luxembourg Branch)
Custodian	State Street Bank International GmbH (Luxembourg Branch)

As disclosed in the most recent Annual Report, the ongoing charges calculation excludes performance fees, but includes management and applied services fees. The effective Applied Service Fee is accrued at each calculation of the Net Asset Value and included in the ongoing charges of each Share Class.
The investment will be reduced by the payment of the above mentioned fees.

Fund Objectives

The Sub-Fund is a multi asset class portfolio, seeking to provide regular income and to achieve medium term capital growth through dynamic and flexible allocation across a wide array of asset classes globally.

Investment Horizon

This Sub-Fund may not be suitable for investors who plan to withdraw their contribution within 5 years.

Risk Characteristics

1	2	3	**4**	5	6	7

Lower risk
Potentially lower reward

Higher risk
Potentially higher reward

The risk category is calculated using historical performance data and may not be a reliable indicator of the Sub-Fund's future risk profile.

The risk category shown is not guaranteed and may shift over time. The lowest category does not mean risk free.

Why is this Sub-Fund in this category?
The capital of the Sub-Fund is not guaranteed. The Sub-Fund is invested in financial markets and uses techniques and instruments which are subject to some levels of variation, which may result in gains or losses.

Additional Risk

Counterparty Risk: Risk of bankruptcy, insolvency, or payment or delivery failure of any of the Sub-Fund's counterparties, leading to a payment or delivery default.

Geopolitical Risk: investments in securities issued or listed in different countries may imply the application of different standards and regulations. Investments may be affected by movements of foreign exchange rates, changes in laws or restrictions applicable to such investments, changes in exchange control regulations or price volatility.

Liquidity Risk: risk of low liquidity level in certain market conditions that might lead the Sub-Fund to face difficulties valuing, purchasing or selling all/part of its assets and resulting in potential impact on its net asset value.

Credit Risk: Risk that issuers of debt securities held in the Sub-Fund may default on their obligations or have their credit rating downgraded, resulting in a decrease in the Net Asset Value.

Impact of any techniques such as derivatives: Certain management strategies involve specific risks, such as liquidity risk, credit risk, counterparty risk, legal risk, valuation risk, operational risk and risks related to the underlying assets.The use of such strategies may also involve leverage, which may increase the effect of market movements on the Sub-Fund and may result in significant risk of losses.

Additional Information (Continued)

Subscription Redemption

The subscription, conversion or redemption orders must be received by the Registrar and Transfer Agent on any Valuation Day no later than 3 p.m. Luxembourg time. Orders will be processed at the Net Asset Value applicable to the following Valuation Day. The investor's attention is drawn to the existence of potential additional processing time due to the possible involvement of intermediaries such as Financial Advisers or distributors.The Net Asset Value of this Sub-Fund is calculated on a daily basis.

How to Invest

Before making an investment, investors should read the relevant Prospectus and the Key Investor Information Document / scheme documents, which provide full product details including investment charges and risks. The information contained herein is not a substitute for those documents or for professional external advice.
Retail Investors
Retail investors should contact their Financial intermediary.

ESG Metrics Definition

The ESG absolute rating is based on a third party scoring methodology. If the fund has one tree (5 trees), it means that it is in the lowest (highest) ESG absolute rating category.
For more information on the methodology, please visit https://www.axa-im.com/responsible-investing.
The portfolio has a contractual objective on one or more ESG indicators.

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Additional Information (Continued)

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